

Macro-Economic effect of Remittance: A case study of Pakistan

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Abstract

Remittances are the major of South Asian economies . A large number of migrants migrate from their countries to multiple places and they send remittances to their homes. This research highlights a strong connection between remittances and their macro-economic effects on Pakistan. Some of the researches have been conducted on the remittances in Pakistan and most of them focused on two categories either on the migration or on the flow of remittances in the South Asian countries. But this study attempted to provide a view not only on the flow of remittances over the last decade but also established connections between flow of remittances and macro-economic growth in this country.

This research conducted on important country of South Asia namely: Pakistan. The main focus of this research is to define inwards flow of remittances and its macro-economic effect. The expected finding of this research will be the facts that the selected country' financial condition largely dependent on remittances sent by their overseas diasporas.

Keywords: Migrants, remittance, economic growth, overseas diaspora

1. Introduction

The role of workers' remittances of recipient countries is considered to be an important area of research which plays an important role in the development at macro level. A sound research in this area is important for policy-makers so that they can draftwise policies to channel these flows into productive investment. Remittances are an important source of foreign exchange earnings, predominantly from developed countries to developing countries. The availability of remittances has not only helped the beneficiary countries some economic growth by reducing the current account deficit, it has also reduced their external borrowing as well as external debt burden. It becomes very difficult to assess the impact of remittances because their outcomes are different at different levels. According to study: "Many analysts use the gross amount of remittances to developing countries to highlight their importance relative to official development assistance and other financial flows. But this is misleading, since the gross figures do not take into account the transfers that migrants make to rich countries, and those that take place between developing countries. When these "reverse flows" are taken into account, the net amount received by developing countries is much smaller"(IOM, 2005) .

The policy makers are more focussed on the the exclusive characteristics of remittances and their potential economic impact in recent years, as evidenced by a growing literature aimed at analyzing remittances and their consequences for individual countries. Some features of remittances provide the stimulus for embarking on a study of their macroeconomic aspects. The globalization trend have enhanced the flow of remittances for the recipient countries, and the fact that these flows are quite distinct from those of official aid or private capital, which are much better understood in the literature.

The remittances are the major potential of foreign exchange for financially weak countries where the inflow of remittance is more than the combined level of foreign direct assistance (FDA) and foreign direct investment (FDI), (Newland, 2005). It has found that there is big contribution of remittances by foreign communities in economy (Klooster, 2005).

There is a positive impact on the source country relating to balance of payment, increment of GNP which enhances the access to luxurious articles. The constant inflow of remittances has been very important in increasing export items, enhancement of country's wealth and easing foreign exchange complication. They are deemed to be affecting in development and economic stability.

2. Literature review:

The volume of remittances can increase in spending by change in amount of investment. It has found that remittance could bring economic development if it is channeled into productive development (Ratha, 2007). It has also found that remittances reduce credit constraints and work as alternative financial system in underdevelopment financial system (Paola & Ruiz-Arranz, 2006).

The impact of remittances on economic growth has proved to be positive by now, for instance, during the period of 1980 to 2004, sample of 39 developing countries had positive impact on the growth of economy (Pradhan, Upadhyay, & Upadhyaya, 2008). It is also suggested that there is no impact upon economy, though not denying the poverty alleviation and change in consumption capacity on receiver (IMF, 2009).

According to the study, remittance inflow have counterbalance the trade shortfall and able to maintain accounts surplus for some large receiving countries (Mohapatra et al. 2010). There is contribution of remittances towards GDP growth rate. That's why, most of countries opting for the source of capital from their Diaspora outside the country as there is now strong awareness relating to remittances as source of external finance. As per study, some countries such as Srilanka, Nepal and Philippines considering the issuance of remittance bond (Mohapatra, 2010).

It has found that the flow of remittances has negative impact along with positive impact. On one hand, international migration income opportunity, rapid economic development, change in living conditions, infrastructural development, on the other hand, it bring about class distinctions, income disparity, and culture lag among remittance recipient and non-recipient countries. In Middle East, severe economic crises occurred for South Asian countries. Despite the fact that their export to industrialized zone reduced, slowdown in import provide support to contain trade and current account deficit. In 2009, financial crises in the Middle East caused concern to all remittance recipient countries in particularly Pakistan. Yet, this concern was short term due to strong resilience from remittance continued to remain strong (UNESCAP, 2010). In another study concluded that economic growth is stimulated by enhancement of remittances for some receiving countries (Matuzeviciute and Butkus 2016) and (Meyer and Shera 2016). In 2017, the amount of 466 billion USD representing over 70% from the worldwide flows which is remittances sent home by workers from developing countries (World Bank, 2016). Some other consider that "If remittances are countercyclical, then they could help smooth macroeconomic fluctuations, and if they are procyclical, they could amplify business cycle fluctuations". (De, Islamaj, Kose, and Yousefi 2016)

Objectives:

1. To study the remittances' trends for some of South Asian countries.
2. To study the remittance's effect on economic growth of selected country of South Asia.
3. To study of effect of inward remittances and its effect at macro-level.

Based on the particular objectives that have been researched, the following hypotheses were formulated:

Hypothesis:

Hi: There has been increase in the volume of inflow of remittances over the period of time.

Hii: Increase in remittances has major impact upon stabilizing the macro-economic growth.

Methodology:

In this study, a cross-sectional and descriptive model has been used with different aspects including: inflow of remittances and remittances 'impact of selective country. The primary focus was to analyze through the qualitative analysis, but some assistance was taken through quantitative sources. Also, both primary and secondary sources data have been taken for information. In addition to this, a questionnaire has been formulated and administrated personally and through email from the representatives of different organization such as State Bank of Pakistan, Applied Economics and Research Centre of Pakistan, Ministry of Overseas Pakistan.

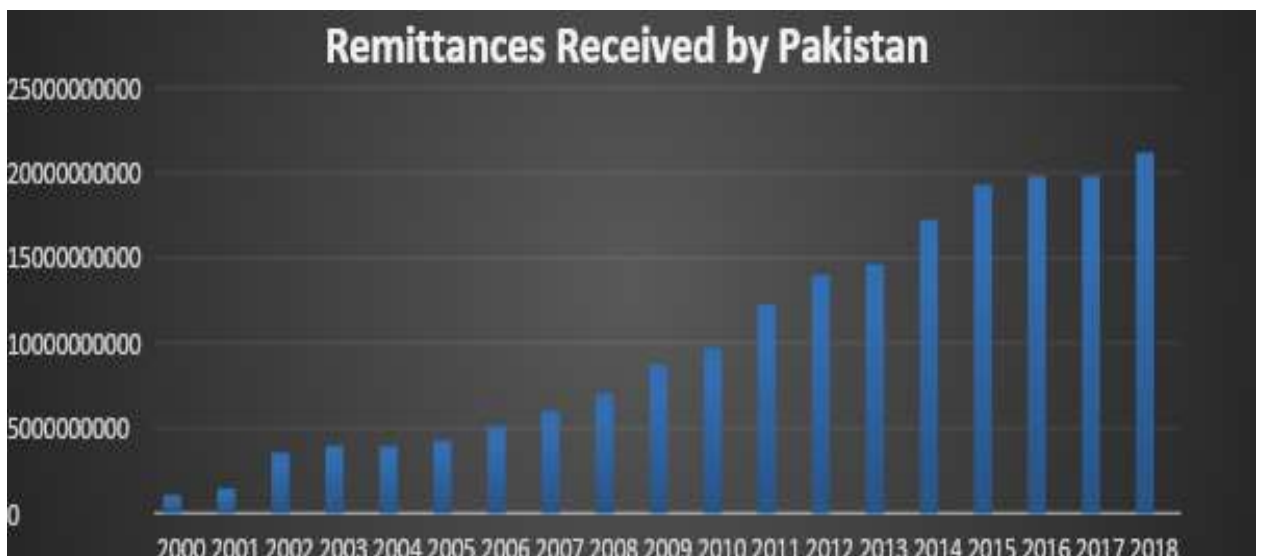
3. REMITTANCES' TRENDS IN SOUTH ASIA

According to the literature, Indian is among those countries which received big amount of remittances across South Asia. The Indian remittances inflow has gone towards higher side during the last decade. India received nearly \$80 billion of overseas remittances this year with GDP ratio 7.7% — a 16% leap from last year's \$69 billion in 2017. India holds its higher position, with remittances expected to total \$80 billion, followed by China \$67 billion, Mexico and the Philippines \$34 billion each, and Egypt \$26 billion this year.

Bangladesh holds a prominent position in top remittance recipient countries in the world. Remittances sent by Bangladeshi Diaspora have major contribution to increase gross domestic product. In 1990, Migration outflow accelerated in but it got slow-moving in 2000 due to the occurrence of nine eleven. But again it got enhanced in the upcoming times. There has been a notable rise in remittances which enhanced foreign currency reserves. According to a World Bank report, Bangladesh has been recognized as the ninth highest recipient of remittances this year with \$15.9 billion with GDP ratio 7 % in 2018, which ranks third in South Asia—after India whose remittance is \$80 billion and Pakistan which ranked \$20.9billion.

There has been increase in remittance inflow after nine eleven. The increase was observed significantly .In 2002, approximate \$ 2.3 billion recorded which was doubled than in the year 2000 and it reached up \$ 19.3 billion in 2015 according to World Bank. In 2018, Pakistan received \$ 20 billion according to the same sources. There was little pause observed in remittance inflow due to some economic down turn in Middle East, as a result, some Pakistani workers were lay off from their work. However, this impact was replaced by the migrant workers aspired for new destinations especially in emerging market. There is one more reason which conveys that global economic crisis did not impact the flow of remittances to Pakistan which is weakening of Pakistani currency implied the consumer’s surplus increased when buying was done locally in Pakistan.

4. Discussion/Analysis



Source: Author’s estimate

There has been increase in remittance inflow after nine eleven. The increase was observed significantly .In 2002, approximate \$ 3.5 billion recorded which was doubled than in the year of 2000 and it reached up approximate \$ 10 billion in 2010 and \$ 19.3 billion in 2015 according to World Bank. In 2018, Pakistan received \$ 20 billion according to the same sources and the due to increase in remittances, there was obvious increase in GDP ratio which is 5.79 5. There was little pause observed in remittance inflow due to some economic down turn in Middle East from 2007 to 2009, as a result, some Pakistani workers were lay off from their work. However, this impact was replaced by the migrant workers aspired for new destinations especially in emerging market. There is one more reason which conveys that global economic crisis did not impact the flow of remittances to Pakistan which is weakening of Pakistani currency implied the consumer’s surplus increased when buying was done locally in Pakistan.

According to the study, higher economic growth is expected to be positively associated with swelled flow of remittances for receiver country. The availability of foreign exchange through remittances did not only reducing the current account deficit, but also help Pakistan in achieving a reasonably high economic growth. It also reduced its external borrowing as well as external debt burden. Thus, workers’ remittances is expected to be an important prerequisite for accelerating the real output growth in Pakistan.

South Asia is holding very strong position in various regions. In 2014, the formal remittance reached up to 115 billion \$ with increase 13.5 % and gone up to 132 billion & in 2018. Moreover, the volume of GDP has major impact of remittances in across South Asian region. For instance, India had share of 2.7% with 12 billion \$ amount of remittances. Bangladesh had 3.6% GDP with 1.9 billion \$ and Pakistan had 1.4% with 1.07 billion \$ in 2000 from it Diaspora.. As the volume of remittance increased with every passing year, there was also increase witnessed in the volume of GDP. It is very important to mention that some political instability was

observed in across the region which resultantly affected the flow of remittances, but later on it got sound environment. For instance, Pakistan had 20 billion \$ with share of GDP 7.7 %, 7 % and 5.79 % respectively in 2018. Another important role played by remittances is to finance trade deficit in South Asia especially. For example, remittances accounted for merchandise trade deficit for **91.3%** for Pakistan.

5. Conclusion:

It is very clear that there is strong connection between remittances and financial development. A productive investment through remittance is to promote the economic stability. Remittances have increased with pace in Pakistan during the last decade. The remittances are usually examined at micro and macro levels in the developmental impacts of remittances. Macro-level studies generally focus on national outcomes (e.g., foreign exchange and labor patterns). It has been found by some financial institution such as devalue of home currency is one of the reason in flow of remittances to purchase durable assets e.g., houses and land etc. Moreover, better financial institutions encourage recipient families to deposit remittance in banks. In this way, this deposit is added to formal remittance flow which was not counted before.

To stabilize remittance flows, it is recommended that Pakistan should diversify migration destinations. Moreover, bank account is made mandatory for all migrant workers as it will help to break down blockades and attract more remittances through the formal sources. Reduction of transaction costs of remittances will increase the amount of remittance. In addition, government should make sure the flow of remittances through official channels since this would maximize the remittance size. Strengthening of the financial infrastructure will boost remittances

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